

CITY OF PERRY
SHIAWASSEE COUNTY, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
AND AUDITORS' REPORT

JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Perry	County Shiawassee
Audit Date June 30, 2005	Opinion Date December 21, 2005	Date Accountant Report Submitted to State: January 17, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

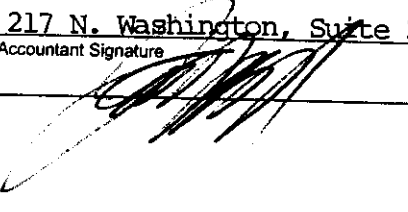
Certified Public Accountant (Firm Name) Dennis and Wenzlick, P.C.			
Street Address 217 N. Washington, Suite 201		City Owosso	State MI
Accountant Signature 		ZIP 48867	Date

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CITY OF PERRY
LIST OF COUNCIL MEMBERS
JUNE 30, 2005

CITY COUNCIL

Stephen Daunt	Mayor
Thomas Chaput	Mayor Pro-Tem
Lisa Cornish	Council Person
Bradley Ford	Council Person
William Morehouse	Council Person
James A. Huguelet	Council Person
Susan Richardson	Council Person

ADMINISTRATIVE OFFICERS

Jo Ann Velting	Treasurer
Judy Guenther	Clerk



DEMIS and WENZLICK, P.C.

Certified Public Accountants

James Demis, Jr., C.P.A.
LaVearn G. Wenzlick, C.P.A.
Lori S. Chant, C.P.A.
Geraldine Terry, C.P.A.

217 N. Washington Street
Pabst Building, Suite 201
Owosso, MI 48867

989-723-8227 • FAX 989-725-5143
E-MAIL office@dw-cpa.com

Carol A. Demis
Jeanette Gaitskill
Greg Irish
Janis K. Mead
Tammy Pappas
David Pullen
Peggy Ryan
Joyce M. Simmons
Barbara Wenzlick
Gail Winnick, C.P.A.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the City Council
City of Perry
Perry, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, major funds and the aggregate remaining fund information of the City of Perry as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, major funds, and the aggregate remaining fund information of the City of Perry as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, of the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The City has not presented the Management Discussion and Analysis, that the Governmental Accounting Standards Board in its Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments has determined necessary to supplement, although not required to be part of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2005 on our consideration of the City of Perry's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Perry's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Davis and Wengert, P.C.

Certified Public Accountants

Owosso, Michigan
December 21, 2005

CITY OF PERRY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 269,644	\$ 776,769	\$1,046,413
Receivables	50,767	65,934	116,701
Internal Balances	60,483	(50,000)	10,483
Due from Other Gov't Units	90,385	-	90,385
Prepaid Expenditures	17,921	-	17,921
Other Assets	-	11,350	11,350
Capital Assets (Net)	<u>1,444,714</u>	<u>2,882,600</u>	<u>4,327,314</u>
TOTAL ASSETS	<u>\$1,933,914</u>	<u>\$3,686,653</u>	<u>\$5,620,567</u>
LIABILITIES			
Accounts Payable	\$ 29,912	\$ 13,099	\$ 43,011
Accrued & Other Liabilities	33,626	35,965	69,591
Noncurrent Liabilities			
Due within one year	84,633	71,000	155,633
Due in more than one year	<u>1,047,883</u>	<u>634,000</u>	<u>1,681,883</u>
TOTAL LIABILITIES	<u>\$1,196,054</u>	<u>\$ 754,064</u>	<u>\$1,950,118</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 353,192	\$2,177,600	\$2,530,792
Reserved for Restricted Assets	-	235,243	235,243
Unreserved:			
Designated for Capital Assets	-	474,142	474,142
Unreserved	<u>384,668</u>	<u>45,604</u>	<u>430,272</u>
TOTAL NET ASSETS	<u>\$ 737,860</u>	<u>\$2,932,589</u>	<u>\$3,670,449</u>

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

		<u>Program Revenues</u>			<u>Net (Expenses) Revenue And Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Oper. Grants and Contrib.</u>	<u>Capital Grants and Contrib.</u>	<u>Gov't Activities</u>	<u>Business Type Activities</u>	<u>Totals</u>
	<u>Expenses</u>						
Functions/Programs							
PRIMARY GOVERNMENT							
Governmental Activities							
General Gov't.	\$ 465,212	\$ 2,062	\$	\$ -	\$ (463,150)	\$	\$ (463,150)
Public Safety	435,658		46,251	-	(389,407)		(389,407)
Public Works	462,473				(462,473)		(462,473)
Recreation & Culture	87,715		2,708		(85,007)		(85,007)
Int. on Long-Term Debt	22,320				(22,320)		(22,320)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$1,473,378</u>	<u>\$ 2,062</u>	<u>\$48,959</u>	<u>\$ -</u>	<u>\$ (1,422,357)</u>	<u>\$ -</u>	<u>\$ (1,422,357)</u>
Business-type Activities							
Sewer	\$ 316,425	\$334,299	\$	\$	\$	\$ 17,874	\$ 17,874
Water	289,305	275,527				(13,778)	(13,778)
Total Business-Type Activities	<u>\$ 605,730</u>	<u>\$609,826</u>	<u>\$</u>	<u>\$</u>	<u>\$ (1,422,357)</u>	<u>\$ 4,096</u>	<u>\$ 4,096</u>
TOTAL PRIMARY GOV'T	<u>\$2,079,108</u>	<u>\$611,888</u>	<u>\$48,959</u>	<u>\$ -</u>	<u>\$ (1,422,357)</u>	<u>\$ 4,096</u>	<u>\$ (1,418,261)</u>
General Revenues							
Property Taxes					\$ 630,860	\$	\$ 630,860
Special Assessments					-		-
State Shared Revenue					345,572		345,572
Unrestricted Investment Earnings					80,409	13,203	93,612
Franchise Fees					29,794		29,794
Miscellaneous & Transfers					215,289	614	215,903
Total General Revenues and Transfers					<u>\$1,301,924</u>	<u>\$ 13,817</u>	<u>\$ 1,315,741</u>
Change in net Assets					(120,433)	17,913	(102,520)
Net Assets - Beginning					858,293	2,914,676	3,772,969
NET ASSETS - ENDING					<u>\$ 737,860</u>	<u>\$2,932,589</u>	<u>\$ 3,670,449</u>

See accompanying notes to financial statements.

CITY OF PERRY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
ASSETS					
Cash and Cash Equiv.	\$ 65,959	\$50,236	\$14,168	\$71,176	\$201,539
Receivables	50,767				50,767
Due from Other Funds	60,483				60,483
Due from Other Gov't.	69,994	14,515	5,876		90,385
Prepaid Expenditures	17,921				17,921
TOTAL ASSETS	<u>\$265,124</u>	<u>\$64,751</u>	<u>\$20,044</u>	<u>\$71,176</u>	<u>\$421,095</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts Payable	\$ 24,589	\$ 1,004	\$ 1,013	\$ 946	\$ 27,552
Accrued Wages	6,359	-	-	905	7,264
Deferred Revenue	50,767	-	-	10,000	60,767
TOTAL LIABILITIES	<u>\$ 81,715</u>	<u>\$ 1,004</u>	<u>\$ 1,013</u>	<u>\$11,851</u>	<u>\$ 95,583</u>
FUND BALANCE					
Unreserved					
Other Undesignated	183,409	63,747	19,031	59,325	325,512
Total Fund Balance	<u>183,409</u>	<u>63,747</u>	<u>19,031</u>	<u>59,325</u>	<u>325,512</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$265,124</u>	<u>\$64,751</u>	<u>\$20,044</u>	<u>\$71,176</u>	<u>\$421,095</u>

See accompanying notes to financial statements.

CITY OF PERRY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS		\$ 325,512
Total Net Assets Reported for Governmental Activities in the Statement of Net Assets is different because:		
Deferred Special Assessments		60,767
Capital Assets used in Governmental Activities are not Financial Resources and therefore are not reported in the funds		1,250,154
Long-term Liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statements of net assets		
Balances as of June 30, 2005 as follows:		
Bonds Payable	\$ (1,132,516)	
Accrued Interest Payable	(26,362)	
Compensated Absences Payable	<u>(40,994)</u>	(1,158,878)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets		
		<u>260,305</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>737,860</u>

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
REVENUES					
Taxes and Penalties	\$ 647,384	\$ -	\$	\$	\$ 637,384
Licenses and Permits	29,794				29,794
State Grants	219,512	89,738	36,322	2,708	348,280
Federal Grants	46,251				46,251
Charges for Services	2,062				2,062
Fines and Forfeitures	10,238			857	11,095
Interest and Rentals	124,889	1,326	747	65,612	192,574
Other Revenue	70,548			21,481	92,029
TOTAL REVENUES	\$1,150,678	\$ 91,064	\$ 37,069	\$ 90,658	\$1,369,469
EXPENDITURES					
Current					
Legislative	\$ 17,748	\$	\$	\$	\$ 17,748
General Government	338,703				338,703
Public Safety	434,857			801	435,658
Public Works	283,769	70,453	105,054	3,496	462,772
Recreation & Culture	4,666			83,049	87,715
Capital Outlay	10,872				10,872
Debt Service	51,047	-		54,975	106,022
TOTAL EXPENDITURES	\$1,141,662	\$ 70,453	\$105,054	\$142,321	\$1,459,490
EXCESS OF REVENUES OVER EXPENDITURES	\$ 9,016	\$ 20,611	\$ (67,985)	\$ (51,663)	\$ (90,021)
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	22,000	54,000	76,000
Transfers Out	(68,400)	(7,600)	-	-	76,000
Total Other Financing Sources and Uses	\$ (68,400)	\$ (7,600)	\$ 22,000	\$ 54,000	\$ -
Net Change in Fund Bal.	(59,384)	13,011	(45,985)	2,337	(90,021)
Fund Balance-Beginning	242,793	50,736	65,016	56,988	415,533
FUND BALANCE-ENDING	\$ 183,409	\$ 63,747	\$ 19,031	\$ 59,325	\$ 325,512

See accompanying notes to financial statements.

CITY OF PERRY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds		\$ (90,021)
Total Change in Net Assets Reported for Governmental Activities in the Statement of Activities is different because:		
Governmental Funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense		
Depreciation Expense	\$ (98,259)	
Capital Outlay	<u>10,872</u>	(87,387)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds		
Current Collection of Special Assessments		(16,524)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets		
Repayments of Long-Term Debt		81,134
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
Change in Compensated Absences Payable	\$ (332)	
Change in Accrued Interest on bonds	<u>1,568</u>	1,236
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities		
		(10,871)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>(120,433)</u>

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-Type Activities Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equipment Pool	Total
ASSETS						
Current Assets						
Cash & Cash Equiv.	\$ 430,255	\$ 9,606	\$ 439,861	\$ 57,802	\$ 10,303	\$ 68,105
Receivables	30,717	23,075	53,792			
Special Assessments						
Receivable-Current	12,142	-	12,142			
Due from Other Funds	70,000	-	70,000			
TOTAL CURRENT ASSETS	\$ 543,114	\$ 32,681	\$ 575,795	\$ 57,802	\$ 10,303	\$ 68,105
Capital Assets	\$3,240,695	\$1,580,178	\$4,820,873	\$ 418,278	\$ 63,598	\$ 481,876
Less: Accum Depr.	(1,351,008)	(587,265)	(1,938,273)	(239,191)	(48,125)	(287,316)
Net Property, Plant & Equipment	<u>\$1,889,687</u>	<u>\$ 992,913</u>	<u>\$2,882,600</u>	<u>\$ 179,087</u>	<u>\$ 15,473</u>	<u>\$ 194,560</u>
Restricted Assets						
Cash & Cash Equiv.	280,727	56,181	336,908	-	-	-
Other Assets						
Unamortized Bond Disc. & Fin. Costs	8,900	2,450	11,350	-	-	-
TOTAL ASSETS	\$2,722,428	\$1,084,225	\$3,806,653	\$ 236,889	\$ 25,776	\$ 262,665
LIABILITIES						
Current Liabilities						
Accts. Payable	\$ 2,846	\$ 10,253	\$ 13,099	\$ 2,210	\$ 150	\$ 2,360
Accrued Wages & Related Liab.	10,122	10,330	20,452	-	-	-
Due to Other Funds	-	120,000	120,000			
Current Portion of Non-Current Liab.	37,500	33,500	71,000			
Accrued Int. Pay.	1,670	7,239	8,909			
Cust. Dep. Payable	-	6,604	6,604			
TOTAL CURRENT LIAB.	\$ 52,138	\$ 187,926	\$ 240,064	\$ 2,210	\$ 150	\$ 2,360
Noncurrent Liabilities						
Bonds, Notes & Loans Payable	137,500	496,500	634,000	-	-	-
Total Liabilities	\$ 189,638	\$ 684,426	\$ 874,064	\$ 2,210	\$ 150	\$ 2,360
NET ASSETS						
Invested in Capital assets, net of related Debt	\$1,714,687	\$ 462,913	\$2,177,600	\$ 179,087	\$ 15,473	\$ 194,560
Reserved for Rest. Assets	185,643	49,600	235,243			
Restricted for: Design. for						
Capital Assets	432,642	41,500	474,142			
Other Unrestricted	199,818	(154,214)	45,604	55,592	10,153	65,745
TOTAL NET ASSETS	\$2,532,790	\$ 399,799	\$2,932,589	\$234,679	\$ 25,626	\$ 260,305

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Business-Type Activities Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equip Pool	Total
OPERATING REVENUES						
Charges for Service	\$ 294,043	\$ 245,574	\$ 539,617	\$ 72,630	\$10,350	\$ 82,980
Connection & Tap Charges	33,679	24,193	57,872	-	-	-
Penalties	6,577	5,652	12,229	-	-	-
Other Reimbursements	-	108	108	10,900	-	10,900
TOTAL OPERATING REVENUES	\$ 334,299	\$ 275,527	\$ 609,826	\$ 83,530	\$10,350	\$ 93,880
OPERATING EXPENSE						
Salaries and Wages	\$ 90,907	\$ 82,355	\$ 173,262	\$ 5,809	\$ -	\$ 5,809
Fringe Benefits	32,622	31,750	64,372	7,863	-	7,863
Supplies	5,250	9,955	15,205	24,305	1,034	25,339
Other Service & Charges	102,795	103,523	206,318	-	-	-
Repairs & Maintenance	-	-	-	54,429	12,386	66,815
Depreciation	72,011	33,129	105,140	41,757	6,246	48,003
Total Operating Expenses	\$ 303,585	\$ 260,712	\$ 564,297	\$134,163	\$19,666	\$153,829
Operating Income (Loss)	\$ 30,714	\$ 14,815	\$ 45,529	\$ (50,633)	\$ (9,316)	\$ (59,949)
NON-OPERATING REVENUES (EXPENSES)						
Interest & Invest. Rev.	\$ 9,774	\$ 3,429	\$ 13,203	\$ 1,371	\$ 318	\$ 1,689
Interest Expense	(12,840)	(28,593)	(41,433)	-	-	-
Total Non-Operating Revenues (Expenses)	(3,066)	(25,164)	(28,230)	1,371	318	1,689
Change in Net Assets	27,648	(10,349)	17,299	(49,262)	(8,998)	(58,260)
Net Assets - Beginning	2,505,142	410,148	2,915,290	283,941	34,624	318,565
NET ASSETS - ENDING	\$2,532,790	\$ 399,799	\$2,932,589	\$234,679	\$25,626	\$260,305

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Business-Type Activities Enterprise Funds			Internal Service Funds		
	Sewer	Water	Total	Motor Pool	Office Equip. Pool	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 354,828	\$ 275,319	\$ 630,147	\$ 82,630	\$10,350	\$ 92,980
Payments to Suppliers	(18,037)	(24,379)	(42,416)	(24,318)	(1,034)	(25,352)
Payments to Employees	(123,530)	(114,105)	(237,635)	(13,673)	-	(13,673)
Other Receipts (Payments)	(93,831)	(171,358)	(265,189)	(52,937)	(12,386)	(65,323)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 119,430	\$ (34,523)	\$ 84,907	\$ (8,298)	\$ (3,070)	\$ (11,368)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Special Maint.	\$ 4,961	\$ -	\$ 4,961	\$ -	\$ -	\$ -
Purchase of Capital Assets	(119,560)	(31,717)	(151,277)	(40,839)	(2,925)	(43,764)
Retirement of Debt	(85,000)	(33,000)	(118,000)	-	-	-
Int. & Fiscal Charges Paid	(12,141)	(28,300)	(40,441)	-	-	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (211,740)	\$ (93,017)	\$ (304,757)	\$ (40,839)	\$ (2,925)	\$ (43,764)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Revenue (Includes Hydrant Rentals)	9,774	29,246	39,020	1,371	318	1,689
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (82,536)	\$ (98,294)	\$ (180,830)	\$ (47,898)	\$ (5,677)	\$ (53,575)
Cash and Cash Equivalents - Beginning of Year	793,518	164,081	957,599	105,700	15,980	121,680
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 710,982	\$ 65,787	\$ 776,769	\$ 57,802	\$10,303	\$ 68,105
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 30,714	\$ (11,385)	\$ 19,329	\$ (50,633)	\$ (9,316)	\$ (59,949)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities						
Depreciation Expense	72,011	33,129	105,140	41,757	6,246	48,003
Change in Assets & Liab.						
Receivables	11,479	1,214	12,693	-	-	-
Due from Other Funds	11,823	-	11,823	-	-	-
Accounts Payable	1,383	(2,832)	(1,449)	269	-	269
Wages Payable	(3,017)	(2,586)	(5,603)	309	-	309
Accrued Interest Payable	(4,963)	(383)	(5,346)	-	-	-
Customer Deposits Payable	-	(1,680)	(1,680)	-	-	-
Due to Other Funds	-	(50,000)	(50,000)	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 119,430	\$ (34,523)	\$ 84,907	\$ (8,298)	\$ (3,070)	\$ (11,368)

See accompanying notes to financial statements.

CITY OF PERRY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2005

	<u>AGENCY FUNDS</u>
ASSETS	
Cash	
Due from Other Funds	\$ 9,025
TOTAL ASSETS	<u>12,086</u> <u>\$21,111</u>
LIABILITIES	
Due to Other Funds	
Due to Other Governmental Units	\$17,117
TOTAL LIABILITIES	<u>3,994</u> <u>\$21,111</u>

See accompanying notes to financial statements.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Perry conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the significant accounting policies used by the City:

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privilege provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

REPORT ENTITY

The financial reporting entity of the City of Perry includes all funds and accounts of the City.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City has considered all potential component units in evaluating how to define the city for financial reporting purposes. The decision to include the component units in the reporting entity was made by applying the criteria set forth in Statement 14 of the Governmental Accounting Standards Board (GASB), The Financial Reporting Entity as well as the Statement of Michigan Governmental Accounting and Auditing No. 5, which defines the reporting of primary government and component unit activities. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's general purpose financial statements is the exercise of financial responsibility over such agencies by the governmental unit's elected officials, the selection of the governing authority, the designation of management, and the ability to exercise significant influence over operations.

BLENDING COMPONENT UNIT

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

Building Authority - The Perry Area Building Authority exists and operates for the purpose of owning, equipping, operating and maintenance of property leased by the City of Perry. For the Authority's year end December 31, 2004, the City made lease payments amounting to \$58,388 for occupancy of facilities owned by the Authority. Subsequent to the Authority's year end, the City has made additional lease payments through June 30, 2005 amounting to \$29,837. The board members of the Authority are appointed by City Council. Since the Perry Building Authority exists and operates for the sole benefit of the City of Perry, its financial records are included as a blended component in the general purpose financial statements of the City.

JOINT VENTURE

Fire Rescue - The Perry Area Fire Rescue is operated as a joint venture with the Township of Perry, County of Shiawassee. For the Fire Board's fiscal year ended March 31, 2004, the City agreed to provide approximately \$31,801 for the operation of the department. A new contract for fire and Ambulance service has been entered into as of January 1, 2005, with the Southwest Shiawassee Emergency Services Alliance (SSESA). The City has Agreed to provide \$1.00 per thousand dollars of taxable value of real and personal property for fire service. \$41,808.63 was billed on the 2004 winter tax roll.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

JOINT VENTURE (CONTINUED)

Copies of the Perry Building Authority, Perry Area Fire Rescue and SSES financial statements can be obtained by writing:

Ms. Jo Ann Velting
City Treasury
City of Perry
203 W. Polly
Perry, MI 48872

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The City reports the following Major Proprietary Funds:

The Sewer Fund accounts for the cost of collection and treating waste waters.

The Water Fund accounts for the costs of providing water services to City residents.

Additionally, the City reports the following:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Internal Service Funds - The Internal Service Fund accounts for the financing of goods or services by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Agency Funds - The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services and sewage disposal charges. The Water and Sewer Fund also recognizes tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

PROPERTY TAX REVENUE

Property taxes are levied on each July 1, on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1, of the following year, at which time penalties and interest are assessed.

The City's 2004 and valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City of Perry is \$41,761,276 on which ad valorem taxes levy consisted of 14.6718 mills for operating purposes.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash and Investments - The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other fund" Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Certain revenue bonds of the enterprise funds require amounts to be set aside for bond reserve. These amounts have been classified as restricted investments.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment is depreciated using the straight line method over the following useful lives.

Land Improvements	10 to 20 years
Building and Building Improvements	25 to 40 years
Utility Systems	25 to 40 years
Roads	25 years
Other Infrastructure	20 to 40 years
Vehicles	5 to 10 years
Machinery and Equipment	5 to 10 years

Compensated Absences - Full-time employees receive 48 hours of sick leave time after completing six months of employment. Thereafter, sick leave time accumulates eight hours per month with a maximum accumulation of 960 hours. Full-time employees who have accumulated their full 960 hours will be paid for half of the unused sick leave time for the year on the first pay of December of each year. The balance will be lost due to accumulation. The City will also pay one-third accumulated sick leave time upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. Full-time employees earn vacation time at the following rate: 40 hours after one year of service, 80 hours after two years of service, 120 hours after five years of service, 160 hours after fifteen years of service, and 200 hours after twenty years of service. If vacation time is not used during the year, employees may carry over up to 40 hours to the next year. Any remaining unused vacation time will be paid at the employee's normal rate of pay in the first pay period following their anniversary date. Upon termination, employees will be paid accumulated vacation time. All vacation pay and one third sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for terminations as of year end.

Long-term obligation - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

COMPARATIVE DATA

Comparative data is not included in the City's financial statements.

NOTE 2 - DEPOSITS

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency of instrumentality of the United States. United States government or federal agency obligations; repurchase agreements, bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City of Perry's deposits and investment policy are in accordance with statutory authority.

DEPOSITS

At year end, the carrying amount of the City's deposits with financial institutions including \$280 of petty cash was \$1,064,809 and the bank balance was \$1,075,647. Of the bank balance \$228,219 was covered by federal depository insurance and \$847,428 was uninsured and uncollateralized.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 3 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate are as follows:

	<u>General</u>	<u>Sewer</u>	<u>Water</u>	<u>Nonmajor</u>	<u>Total</u>
Accounts	\$ -	\$30,717	\$23,075	\$ -	\$ 53,792
Special Assmts.	50,767	12,142	-	-	62,909
Intergovernmental	<u>69,994</u>	<u>-</u>	<u>-</u>	<u>20,391</u>	<u>90,385</u>
GROSS RECEIVABLES	<u>\$120,761</u>	<u>\$42,859</u>	<u>\$23,075</u>	<u>\$20,391</u>	<u>\$207,086</u>
Due within one year	\$ 86,934	\$42,859	\$23,075	\$20,391	\$173,259
Due after one year	<u>33,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,827</u>
	<u>\$120,761</u>	<u>\$42,859</u>	<u>\$23,075</u>	<u>\$20,391</u>	<u>\$207,086</u>

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Balance <u>7-1-04</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6-30-05</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets not being Depreciation:				
Land	\$ 33,869	\$ -	\$ -	\$ 33,869
Capital Assets being Depreciation:				
Building	1,102,052	10,872		1,112,924
Office Equipment	170,502	2,925		173,427
Public Works Equip.	40,685	-		40,685
Police Equipment	19,289	-		19,289
Park Equipment	14,304	-		14,304
Motor Pool Equip.	425,628	94,939	(102,290)	418,277
Major Street Equip.	38,000	-		38,000
Construction in Progress	-	-		-
Streetscape Project	338,948	-		338,948
Library Collection	<u>196,425</u>	<u> </u>	<u> </u>	<u>196,425</u>
CAPITAL ASSETS BEING DEPRECIATED	<u>\$2,345,833</u>	<u>\$108,736</u>	<u>\$ (102,290)</u>	<u>\$2,352,279</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings	\$ 212,832	\$ 24,873	\$ -	\$ 238,067
Office Equip.	143,718	9,930		153,648
Public Works Equip.	38,934	277		39,211
Police Equip.	19,289	-		19,289
Park Equip.	7,324	4,065		11,389
Motor Pool Equip.	244,600	41,757	47,166	239,191
Major Street Equip.	18,050	3,800		21,850
Streetscape Project	10,169	13,557		23,726
Library Collection	<u>196,425</u>	<u> </u>	<u> </u>	<u>196,425</u>
Accumulated Deprec.	<u>\$ 891,341</u>	<u>\$ 98,259</u>	<u>\$ (47,166)</u>	<u>\$ 942,434</u>
Net Capital Assets being Depreciated	<u>1,454,492</u>	<u>10,477</u>	<u>(55,124)</u>	<u>1,409,845</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$1,488,361</u>	<u>\$ 10,477</u>	<u>\$ (55,124)</u>	<u>\$1,443,714</u>

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance <u>7-1-04</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6-30-05</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets not being Depreciated:				
Land	\$ <u>119,362</u>	\$ _____	\$ _____	\$ <u>119,362</u>
Capital Assets being Depreciated:				
Mains, Wells, Collection and Treatment Facilities	\$4,304,274	\$145,277	\$ _____	\$4,449,551
Machinery & Equip.	202,975	6,000		208,975
Office Furniture & Equipment	<u>42,985</u>	_____	_____	<u>42,985</u>
Capital Assets being Depreciated	\$ <u>4,550,234</u>	\$ <u>151,277</u>	\$ _____	\$ <u>4,701,511</u>
Less Accumulated Depreciation for:				
Mains, Wells, Collection and Treatment Fac.	\$1,711,652	\$ 96,307	\$ _____	\$1,807,959
Machinery & Equip.	78,496	8,832		87,328
Office Furniture and Equipment	<u>42,986</u>	_____	_____	<u>42,986</u>
Accumulated Depreciation	\$ <u>1,833,134</u>	\$ <u>105,139</u>	\$ _____	\$ <u>1,938,273</u>
Net Capital Assets Being Depreciated	<u>2,717,100</u>	<u>46,138</u>	_____	<u>2,763,238</u>
Business-Type Capital Assets, Net	\$ <u>2,836,462</u>	\$ <u>46,138</u>	\$ _____	\$ <u>2,882,600</u>

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Government Activities:		
General Government		\$ 47,998
Public Safety		-
Internal Service		45,834
Recreation and Culture		<u>4,065</u>
TOTAL GOVERNMENT ACTIVITIES		<u>\$ 97,897</u>
Business-Type Activities:		
Water		\$ 33,129
Sewer		<u>72,011</u>
TOTAL BUSINESS-TYPE ACTIVITIES		<u>\$105,140</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Tax Collection Fund	\$ 10,483	Final allocation of tax receipts yet to be Distributed.
	Water Fund	50,000	Reimbursement of expenditures paid for by the General Fund
Sewer Fund	Water fund	<u>70,000</u>	Reimbursement of expenditures paid for by the Sewer Fund
		<u>\$130,483</u>	

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

INTERFUND TRANSFERS

General Fund		
To Local Street Fund	\$14,400	To provide for current year operating costs in excess of differences.
General Fund		
To Library Fund	54,000	To provide for current year operating costs in excess of revenues.
Major Street Fund		
To Local Street Fund	<u>7,600</u>	To provide for current year operating costs in excess of revenues.
TOTAL	<u>\$76,000</u>	

NOTE 6 - LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds provide for capital improvements that benefit specific properties benefitted from the construction.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Special Assessments Bonds					
1998 Spalding Drain	\$ 229,603	\$	\$ 19,149	\$ 210,454	\$ 19,149
Building Authority Bonds	751,000		18,000	733,000	19,000
Chemical Bank Note	193,053		44,985	148,068	44,985
Compensated Absences	40,662	332	-	40,994	
	<u>\$1,214,318</u>	<u>\$ 332</u>	<u>\$ 82,134</u>	<u>\$1,132,516</u>	<u>\$ 83,134</u>
Business-Type Activities					
Revenue Bonds					
1982 Water System	\$ 415,000	\$	\$ 30,000	\$ 385,000	\$ 15,000
1983 Water System	90,000		5,000	85,000	5,000
1989 Wastewater Treatment	245,000		70,000	175,000	40,000
1999 Water System	73,000		13,000	60,000	14,000
	<u>\$ 823,000</u>	<u>\$</u>	<u>\$118,000</u>	<u>\$ 705,000</u>	<u>\$ 74,000</u>

The following is a summary of maturity dates, interest rates, and maturities:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Maturities</u>
Governmental Activities			
Special Assessment bonds			
1998 Shiawassee County Drain Co.	10-01-15	5%	\$19,130 - \$19,149
Building Authority Bonds	02-01-27	5%	\$14,000 - \$53,000
Chemical Bank Note	09-05-08	3.34%	\$3,871 - \$25,043
Business-Type Activities			
Revenue Bonds			
1982 Water System	10-01-21	5%	\$10,000 - \$30,000
1983 Water System	10-01-21	5%	\$1,000 - \$5,000
1989 Wastewater Treatment	05-01-09	6-5% - 7.25%	\$15,000 - \$50,000
1999 Water System	02-01-09	4.875% - 4.95%	\$10,000 - \$16,000

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30, _	Governmental Activities		Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 84,633	\$ 53,678	\$ 74,000	\$ 33,580
2007	87,179	50,155	75,000	30,000
2008	89,795	46,576	80,000	26,230
2009	45,000	43,113	91,000	22,134
2010-2014	223,650	178,486	135,000	83,500
2015-2019	202,265	114,785	150,000	47,500
2020-2024	207,000	64,875	100,000	9,750
2025-2027	<u>152,000</u>	<u>11,650</u>	-	-
TOTAL	<u>\$1,091,522</u>	<u>\$563,318</u>	<u>\$705,000</u>	<u>\$252,692</u>

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages risk through the purchase of commercial insurance. Settled claims for commercial insurance have not materially exceeded the amount of insurance coverage in any of the past three fiscal years.

Liability, vehicle, physical damage, property and crime - the City is a member of the Michigan Municipal Liability and Property Pool which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The city is insured up to an aggregate of \$5,000,000. Coverage is subject to deductibles ranging from \$250 to \$500. The City is not subject to supplemental premium assessments by the association.

Workers' compensation - the City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The fund is authorized by State law to provide its members coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$500,000 per occurrence.

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 8 - PENSION PLAN

The City of Perry, Michigan, Employees' Retirement Plan is a IRC Section 501 (a) defined contribution plan which is available to all City employees regularly scheduled to work more than 24 hours per week. The Plan administrator is The Variable Annuity Life Insurance Company, An American General Company. The Plan provides that the City must contribute 5% of each participant's compensation and each participant must contribute 2.5% of compensation to the plan.

Normal retirement is age 60 or 5 years of participation in the plan, whichever is later.

Vesting occurs as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than 3	0%
3 but less than 4	20
4 but less than 5	40
5 but less than 6	60
6 but less than 7	80
7 or more	100

Years of service for vesting include all years of service (not only years of plan participation).

Employee and employer contributions were \$14,742 and \$29,483, respectively for the period ended June 30, 2005.

NOTE 9 - FUND EQUITY/RETAINED EARNINGS RESERVATIONS AND DESIGNATIONS

At June 30, the following portions of the fund equity were reserved or designated in the following funds:

Enterprise Funds

Sewer Bond Reserves	\$185,643
Water Bond Reserves	<u>49,600</u>
TOTAL FOR ENTERPRISE FUNDS	<u>\$235,243</u>

CITY OF PERRY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 10 - POST EMPLOYMENT BENEFITS

The City provides post-employment health insurance benefits to Qualified Retired Employees through age 65, at which time the City provides supplemental insurance coverage to Medicare. The cost of these benefits is paid by the City and is funded on a pay-as-you-go basis. The City's cost of providing the health insurance benefits to retirees for 2005 was approximately \$12,972. There were two participants at June 30, 2005.

In addition, the City provides post-employment health insurance benefits to the extent mandates by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the City.

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The approved budgets of the City were adopted at an activity level. During the period ended June 30, 2005, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated.

	<u>Total</u> <u>Appropriation</u>	<u>Amount</u> <u>Expended</u>	<u>Unfavorable</u> <u>Variance</u>
General Fund			
Police Department	\$382,688	\$397,926	\$15,238
Finance & Tax Admin.	234,018	243,804	9,786
Building Inspection	10,815	15,069	4,254
Fire Board	13,550	13,618	68
Local Street Fund			
Public Works	102,745	105,054	2,309

NOTE 12 - CONTINGENCIES

The City has received grants and assistance from various sources for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under the terms of the grants and aid agreements, the City believes any resulting adjustments would be immaterial.

CITY OF PERRY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Actual (Over) Under Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes and Penalties	\$ 655,359	\$ 655,359	\$ 647,384	\$ 7,975
Licenses and Permits	24,500	24,500	29,794	(5,294)
State Grants	222,953	222,953	219,512	3,441
Federal Grants	36,685	36,685	46,251	(9,566)
Charges for Services	3,000	3,000	2,062	938
Fines and Forfeitures	14,000	14,000	10,238	3,762
Interest and Rentals	124,886	124,886	124,889	(3)
Other Revenue	<u>63,440</u>	<u>63,440</u>	<u>70,548</u>	<u>(7,108)</u>
TOTAL REVENUES	<u>\$1,144,823</u>	<u>\$1,144,823</u>	<u>\$1,150,678</u>	<u>\$ (5,855)</u>
EXPENDITURES				
Current				
Legislative	\$ 20,315	\$ 20,315	\$ 17,748	\$ 2,567
General Government	321,108	339,508	338,703	805
Public Safety	394,440	418,890	434,857	(15,967)
Public Works	221,693	298,753	283,769	14,984
Recreation and Culture	15,600	15,600	4,666	10,934
Capital Outlay	24,150	24,150	10,872	13,278
Debt Service	<u>54,229</u>	<u>54,229</u>	<u>51,047</u>	<u>3,182</u>
TOTAL EXPENDITURES	<u>\$1,051,535</u>	<u>\$1,171,445</u>	<u>\$1,141,662</u>	<u>\$ 29,783</u>
Excess (Deficiency) of				
Revenues over				
Expenditures	\$ <u>93,288</u>	\$ <u>26,622</u>	\$ <u>9,016</u>	\$ <u>(35,638)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ -	\$ -
Transfers Out	<u>(68,400)</u>	<u>(68,400)</u>	<u>(68,400)</u>	<u>-</u>
Net Change in Fund Balance	24,888	(95,022)	(59,384)	-
Fund Balance - Beginning	<u>283,752</u>	<u>252,652</u>	<u>242,793</u>	<u>9,859</u>
FUND BALANCE - ENDING	<u>\$ 308,640</u>	<u>\$ 157,630</u>	<u>\$ 183,409</u>	<u>\$ (25,780)</u>

CITY OF PERRY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual (Over) Under Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental-State	\$ 88,905	\$ 88,905	\$ 89,738	\$ (833)
Interest and Rents	<u>1,000</u>	<u>1,000</u>	<u>1,326</u>	<u>(326)</u>
TOTAL REVENUES	<u>\$ 89,905</u>	<u>\$ 89,905</u>	<u>\$ 91,064</u>	<u>\$ (1,159)</u>
EXPENDITURES				
Public Works	\$ 78,820	\$ 78,820	\$ 70,453	\$ 8,367
Capital Outlay	<u>3,500</u>	<u>3,500</u>	<u>-</u>	<u>3,500</u>
TOTAL EXPENDITURES	<u>\$ 82,320</u>	<u>\$ 82,320</u>	<u>\$ 70,453</u>	<u>\$ 11,867</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 7,585</u>	<u>\$ 7,585</u>	<u>\$ 20,611</u>	<u>\$ (13,026)</u>
OTHER FINANCING USES				
Operating Transfers Out	<u>(7,600)</u>	<u>(7,600)</u>	<u>(7,600)</u>	<u>-</u>
Net Change in Fund Balance	\$ (15)	\$ (15)	\$ 13,011	\$ (13,026)
Fund Balance - Beginning	<u>50,736</u>	<u>50,736</u>	<u>50,736</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 50,721</u>	<u>\$ 50,721</u>	<u>\$ 63,747</u>	<u>\$ (13,026)</u>

CITY OF PERRY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual (Over) Under Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$ 37,006	\$ 37,006	\$ 36,322	\$ 684
Interest and Rents	<u>500</u>	<u>500</u>	<u>747</u>	<u>(247)</u>
TOTAL REVENUES	\$ <u>37,506</u>	\$ <u>37,506</u>	\$ <u>37,069</u>	\$ <u>437</u>
EXPENDITURES				
Public Works	\$ 81,145	\$102,745	\$105,054	\$ (2,309)
Capital Outlay	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
TOTAL EXPENDITURES	\$ <u>84,145</u>	\$ <u>105,745</u>	\$ <u>105,054</u>	\$ <u>691</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>(46,639)</u>	\$ <u>(68,239)</u>	\$ <u>(67,985)</u>	\$ <u>(254)</u>
OTHER FINANCING SOURCES				
Operating Transfers In	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>
Net change in Fund Balance	\$ (24,639)	\$ (46,239)	\$ (45,985)	\$ (254)
Fund Balance - Beginning	<u>65,016</u>	<u>65,016</u>	<u>65,016</u>	<u>-</u>
FUND BALANCE - ENDING	\$ <u>40,377</u>	\$ <u>18,777</u>	\$ <u>19,031</u>	\$ <u>(254)</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>Special Revenue Funds</u>					Non
	<u>Library</u>	<u>Perry Building Authority</u>	<u>DARE Fund</u>	<u>Drug Law Enforcement</u>	<u>City Hall Building</u>	<u>Major Gov't Funds</u>
ASSETS						
Cash & Cash Equiv.	<u>\$13,592</u>	<u>\$19,823</u>	<u>\$1,271</u>	<u>\$ 3</u>	<u>\$36,487</u>	<u>\$71,176</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts Payable	\$ 946	\$ -	\$ -	\$ -	\$ -	\$ 946
Accrued Wages	<u>905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>905</u>
TOTAL LIABILITIES	\$ 1,851	\$ -	\$ -	\$ -	\$ -	\$ 1,851
Deferred Revenue	\$ -	\$10,000	\$ -	\$ -	\$ -	\$10,000
Fund Balance	<u>11,741</u>	<u>9,823</u>	<u>1,271</u>	<u>3</u>	<u>36,487</u>	<u>59,325</u>
TOTAL LIABILITIES AND						
FUND BALANCE	<u>\$13,592</u>	<u>\$19,823</u>	<u>\$1,271</u>	<u>\$ 3</u>	<u>\$36,487</u>	<u>\$71,176</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Special Revenue Funds</u>					Non-Major Gov't Funds
	<u>Library</u>	<u>Building Authority</u>	<u>DARE Fund</u>	<u>Drug Law Enforcement</u>	<u>City Hall Building</u>	
REVENUES						
Intergovernmental -						
State	\$ 2,708	\$	\$	\$	\$	\$ 2,708
Interest & Rents	1,156	58,454			6,002	65,612
Fines & Forf.	857					857
Other	<u>20,608</u>		<u>873</u>			<u>21,481</u>
TOTAL REVENUES	<u>\$ 25,329</u>	<u>\$58,454</u>	<u>\$ 873</u>	<u>\$</u>	<u>\$ 6,002</u>	<u>\$ 90,658</u>
EXPENDITURES						
Public Safety	\$	\$	\$ 800	\$ 1	\$	\$ 801
Public Works		3,197			299	3,496
Recreation & Cultural	82,464				585	83,049
Debt Service		54,975				54,975
Capital Outlay						
TOTAL EXPENDITURES	<u>\$ 82,464</u>	<u>\$58,172</u>	<u>\$ 800</u>	<u>\$ 1</u>	<u>\$ 884</u>	<u>\$142,321</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$(57,135)</u>	<u>\$ 282</u>	<u>\$ 73</u>	<u>\$ (1)</u>	<u>\$ 5,118</u>	<u>\$(51,663)</u>
Other Financing Sources (Uses)						
Operating Transfers In	<u>54,000</u>	<u>-</u>				<u>54,000</u>
Net Change in Fund Balance	(3,135)	282	73	(1)	5,118	2,337
Fund Balance - Beginning	<u>14,876</u>	<u>9,541</u>	<u>1,198</u>	<u>4</u>	<u>31,369</u>	<u>56,988</u>
FUND BALANCE - ENDING	<u>\$ 11,741</u>	<u>\$ 9,823</u>	<u>\$1,271</u>	<u>\$ 3</u>	<u>\$ 36,487</u>	<u>\$ 59,325</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
COMPARATIVE BALANCE SHEET
GENERAL FUND
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and Cash Equivalents	\$ 65,959	\$ 78,941
Special Assessments Receivable	50,767	77,291
Due from Other Governments	69,994	72,361
Due from Other Funds	60,483	105,170
Prepaid Expenditures	<u>17,921</u>	<u>18,975</u>
TOTAL ASSETS	<u>\$265,124</u>	<u>\$352,738</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 24,589	\$ 12,110
Accrued Wages	6,359	20,544
Deferred Revenue	<u>50,767</u>	<u>77,291</u>
TOTAL LIABILITIES	<u>\$ 81,715</u>	<u>\$109,945</u>
Fund Balance	<u>183,409</u>	<u>242,793</u>
Total Fund Balance	<u>183,409</u>	<u>242,793</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$265,124</u>	<u>\$352,738</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES AND
CHANGES IN FUND BALANCE COMPARED TO BUDGET
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Actual (Over) Under Final Budget
REVENUES				
Current Tax Levy	\$ 633,773	\$ 633,773	\$ 620,860	\$ 12,913
Special Assessments	21,586	21,586	26,524	(4,938)
Licenses & Permits	24,500	24,500	29,794	(5,294)
Intergovernmental - State	222,953	222,953	219,512	3,441
Federal Grants	36,685	36,685	46,251	(9,566)
Charges for Services	3,000	3,000	2,062	938
Fines & Forfeitures	14,000	14,000	10,238	3,762
Interest & Rents	124,886	124,886	124,889	(3)
Other Revenues & Reimb.	<u>63,440</u>	<u>63,440</u>	<u>70,548</u>	<u>(7,108)</u>
TOTAL REVENUES	<u>\$1,144,823</u>	<u>\$1,144,823</u>	<u>\$1,150,678</u>	<u>\$ (5,855)</u>
EXPENDITURES				
Legislative	<u>20,315</u>	<u>20,315</u>	<u>17,748</u>	<u>2,567</u>
General Government				
Executive	\$ 8,231	\$ 8,231	\$ 7,323	\$ 908
Elections	3,722	3,722	2,794	928
Finance & Tax Admin.	215,618	234,018	243,804	(9,786)
Clerk	40,543	40,543	40,523	20
Treasurer	29,439	29,439	23,305	6,134
Assessor	<u>23,555</u>	<u>23,555</u>	<u>20,954</u>	<u>2,601</u>
TOTAL GENERAL GOVERNMENT	<u>\$ 321,108</u>	<u>\$ 339,508</u>	<u>\$ 338,703</u>	<u>\$ 805</u>
Public Safety				
Police Department	\$ 371,688	\$ 382,688	\$ 397,926	\$ (15,238)
Fire Board	100	13,550	13,618	(68)
Building Inspection	10,815	10,815	15,069	(4,254)
Planning & Zoning	<u>11,837</u>	<u>11,837</u>	<u>8,244</u>	<u>3,593</u>
TOTAL PUBLIC SAFETY	<u>\$ 394,440</u>	<u>\$ 418,890</u>	<u>\$ 434,857</u>	<u>\$ (15,967)</u>
Public Works				
Dept. Of Public Works	<u>\$ 221,693</u>	<u>\$ 298,753</u>	<u>\$ 283,769</u>	<u>\$ 14,984</u>
Recreation & Cultural				
Recreation & Parks	<u>15,600</u>	<u>15,600</u>	<u>4,666</u>	<u>10,934</u>
Capital Outlay	<u>24,150</u>	<u>24,150</u>	<u>10,872</u>	<u>13,278</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES AND
CHANGES IN FUND BALANCE COMPARED TO BUDGET (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual (Over) Under Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Debt Service				
Principal	\$ 47,048	\$ 47,048	\$ 44,968	\$ 2,080
Interest	<u>7,181</u>	<u>7,181</u>	<u>6,079</u>	<u>1,102</u>
TOTAL DEBT SERVICE	\$ <u>54,229</u>	\$ <u>54,229</u>	\$ <u>51,047</u>	\$ <u>3,182</u>
TOTAL EXPENDITURES	\$ <u>1,051,535</u>	\$ <u>1,171,445</u>	\$ <u>1,141,662</u>	\$ <u>29,783</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>93,288</u>	\$ <u>(26,622)</u>	\$ <u>9,016</u>	\$ <u>(35,638)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$	\$	\$	\$
Operating Transfers Out	<u>(68,400)</u>	<u>(68,400)</u>	<u>(68,400)</u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (68,400)	\$ (68,400)	\$ (68,400)	\$
Net Change in Fund Balance	24,888	(95,022)	(59,384)	(35,638)
Fund Balance - Beginning	<u>283,752</u>	<u>252,652</u>	<u>242,793</u>	<u>9,859</u>
FUND BALANCE - ENDING	\$ <u>308,640</u>	\$ <u>157,630</u>	\$ <u>183,409</u>	\$ <u>(25,779)</u>

CITY OF PERRY
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
FIDUCIARY FUNDS
JUNE 30, 2005
(WITH COMPARATIVE TOTALS AT JUNE 30, 2004)

	Agency Funds			
	Tax Collection	Imprest Payroll	Total	
			2005	2004
ASSETS				
Cash & Cash				
Equivalents	\$10,483	\$ 7,913	\$18,396	\$ 9,025
Due from Other				
Funds				<u>12,086</u>
TOTAL ASSETS	<u>\$10,483</u>	<u>\$ 7,913</u>	<u>\$18,396</u>	<u>\$21,111</u>
LIABILITIES				
Due to Other Funds	\$10,483	\$ 7,913	\$18,396	\$17,117
Due to Other Gov't				
Units				<u>3,994</u>
TOTAL LIABILITIES	<u>\$10,483</u>	<u>\$ 7,913</u>	<u>\$18,396</u>	<u>\$21,111</u>



DEMIS and WENZLICK, P.C.

Certified Public Accountants

James Demis, Jr., C.P.A.
LaVearn G. Wenzlick, C.P.A.
Lori S. Chant, C.P.A.
Geraldine Terry, C.P.A.

217 N. Washington Street
Pabst Building, Suite 201
Owosso, MI 48867

989-723-8227 • FAX 989-725-5143
E-MAIL office@dw-cpa.com

Carol A. Demis
Jeanette Gaitskill
Greg Irish
Janis K. Mead
Tammy Pappas
David Pullen
Peggy Ryan
Joyce M. Simmons
Barbara Wenzlick
Gail Winnick, C.P.A.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the City Council
City of Perry, Michigan
Perry, Michigan

We have audited the financial statements of the City of Perry as of and for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Perry's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Perry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, City Council, and the applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis and Langfish, P.C.

Owosso, Michigan
December 21, 2005



DEMIS and WENZLICK, P.C.

Certified Public Accountants

217 N. Washington Street
Pabst Building, Suite 201
Owosso, MI 48867

989-723-8227 • FAX 989-725-5143
E-MAIL office@dw-cpa.com

Carol A. Demis
Jeanette Gaitskill
Greg Irish
Janis K. Mead
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Peggy Ryan
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Geraldine Terry, C.P.A.

December 21, 2005

To the City Council
City of Perry
Perry, Michigan

In planning and performing our audit of the financial statements of the City of Perry for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. As a result of our examination of the City's financial statements, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

CANCELLED CHECKS

We noted that cancelled checks are not obtained from the bank. In order to maintain strong internal controls, we recommend obtaining all cancelled checks from the bank. We also recommend reviewing cancelled checks for accuracy.

City Council
City of Perry
Page 2
December 21, 2005

BUDGET

The State Revenue Sharing Distribution; Law, P.A. 176, of 1980, includes a compliance requirement in budgeting. It is required under this act that expenditures do not exceed the budget. Expenditures include accounts payable at June 30.

EMPLOYEE FILES

State and Federal law requires certain documentation to be available in an employee's file. We noted absences of required documentation during our testing. We recommend periodically reviewing the files to ensure compliance.

Sincerely,

Demis and Wenzlick, P.C.

DEMIS AND WENZLICK, P.C.
Certified Public Accountants